

## Message Text

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12

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-02 PRS-01 /101 W

----- 119825

R 301518Z JAN 76

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 6684

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS UNN

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

USMISSION OECD PARIS UNN

AMEMBASSY ROME

UNCLAS STOCKHOLM 0532

E.O. 11652: N/A

TAGS: EFIN, SW

SUBJECT: SWEDISH CENTRAL BANK REDUCES DISCOUNT RATE TO 5.5 PERCENT

1. SWEDISH CENTRAL BANK ANNOUNCED JANUARY 29 REDUCTION IN SHORT-TERM DISCOUNT RATE FROM 6 TO 5.5 PERCENT, EFFECTIVE JANUARY 30. LONG-TERM RATES (9 PERCENT FOR GOVERNMENT OBLIGATIONS) STAND UNCHANGED.

2. ANNOUNCEMENT INDICATED THAT DECREASE IN INTEREST-RATE LEVELS ABROAD AND CONTINUED INFLOW OF FOREIGN CURRENCY INTO SWEDEN MADE REDUCTION POSSIBLE AND THAT UNCLASSIFIED

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MEASURE HAS STIMULATIVE INTENT.

3. RIKSBANK CAUTIONED BANKS TO REDUCE TOTAL LENDING BELOW HIGH POINT REACHED IN FOURTH QUARTER 1975 AND URGED THAT FUNDS BE MADE AVAILABLE ESPECIALLY TO INDUSTRY. IT ALSO EMPHASIZED IMPORTANCE OF LIMITING INTEREST RATE DRIFT ON LENDING SIDE.

4. RIKSBANK'S ACTION WAS FAVORABLY REGARDED IN MOST CIRCLES. MANAGING DIRECTOR LARS-ERIK THUNHOLM OF SKANDINAVISKA ENSKILDA BANKEN, TOLD PRESS HE DID NOT EXPECT ANY IMPORTANT CONSEQUENCES ON INTERNATIONAL PAYMENTS ACCOUNT AS RESULT OF MOVE. WHILE HE DID NOT CRITICIZE RETENTION OF HIGH LONG-TERM RATE STRUCTURE, AS MEANS OF PROMOTING SUPPLY OF LONG-TERM CAPITAL, HE THOUGHT THAT TENSION BETWEEN SHORT AND LONG-TERM RATES COULD BECOME-INCREASINGLY DIFFICULT PROBLEM TO MANAGE. OLA VIRIN, ECONOMIST FOR SWEDISH FEDERATION OF INDUSTRIES, BELIEVED STEP WILL HELP STABILIZE COST DEVELOPMENT IN GENERAL AND IN PARTICULAR BRING ABOUT WELCOME REDUCTION IN COSTS OF INVENTORY BUILDUP WHICH FIRMS, DESPITE SHRINKING PROFIT MARGINS, ARE UNDERTAKING WITH HELP FROM GOVERNMENT AS EMPLOYMENT SUPPORT MEASURE.

5. COMMENT. WHILE THERE ARE SOUND ECONOMIC REASONS FOR LOWERING RATE AT THIS TIME, ACTION HAS ITS POLITICAL USEFULNESS TOO AS ANSWER TO CRITICISM FROM BOURGEOIS OPPOSITION THAT GOVERNMENT IS PROVIDING INADEQUATE STIMULATION OF DEPRESSED ECONOMY.

6. RIKSBANK IS NO LONGER EXHORTING COMPANIES TO BORROW ABROAD, AS IT DID LAST SPRING, TO COMPENSATE FOR SHARP DETERIORATION IN CURRENT ACCOUNT. IT IS HOWEVER PLACING NO OBSTACLES IN WAY OF COMPANIES THAT WISH TO DO SO.  
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